Center for Global Development

Fixing international financial institutions: How Africa can lead the way

Dennis de Tray and Todd Moss*

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CGD Notes

Reshaping the boards of all the major multilateral financial institutions into non-executive, non-resident boards… would be a major step forward on the road to multilateral system reform.

Reform of the major multilateral financial institutions is once again on the global agenda. At the Annual Meetings of the World Bank and International Monetary Fund (IMF) in Singapore this month, one of the most hotly debated issues was adjusting the IMF's voting shares to bring the Fund's governance in line with the realities of a 21st century global economy. The functions and form of the boards of directors should be under discussion as well.

The Center for Global Development has just issued a report proposing ways the African Development Bank (AfDB) can focus and modernize to ensure its relevance in a rapidly changing world. In our launch of the report at AfDB headquarters in Tunis on September 7, the recommendation that created the strongest buzz was to streamline the governance of the Bank, specifically to transform its board of resident executive directors into a non-resident, non-executive body.

Rather than the board meeting every week and voting on nearly every loan, we argue that a better model would be to meet six or so times each year and discuss and vote only on overarching strategies and perhaps the very largest loans. When we presented this idea to the AfDB board, there was concern that such a move would be unprecedented among the international financial institutions and would weaken AfDB's governance structure. We believe that neither argument is correct.

The move to a non-resident AfDB board would be a much less radical change than it might first appear. John Maynard Keynes' original plan for the World Bank and IMF included non-resident boards, an option rejected only because of the difficulty of international travel in the 1940s. (This is obviously no longer a barrier, as our trip to Tunis made abundantly clear).

Arguments in favor of moving to a non-resident board apply more widely than to just the AfDB. Mervyn King, Governor of the Bank of England, recently called for a non-resident board at the IMF. We argue that reshaping the boards of all the major multilateral financial institutions—including the other regional development banks—would be a major step forward on the road to multilateral system reform.

Will this reduce legitimate oversight and put shareholders at risk? We think not. In fact, a non-resident, non-executive board, if structured correctly, would strengthen oversight and even enhance the influence of the directors.

Why? First, and foremost, non-executive, non-resident boards would force the governing bodies to focus on their core responsibilities: setting strategy, establishing benchmarks for management, and monitoring of execution. Today, resident executive boards cannot (and do not) resist the temptation to meddle in day-to-day management activities, blurring the distinction between board and management roles.

A non-executive model would also increase accountability by reducing the overlap of responsibilities within the institutions. A clearer delineation is in line

*Dennis de Tray is Vice President and Todd Moss a Senior Fellow at the Center for Global Development.

with corporate governance best-practice, one of the chief reasons non-resident models are the norm in the private corporate world and for many quasi-public institutions, such as the European Investment Bank and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Second, having only a handful of meetings per year would allow the real shareholder decision-makers to sit on the board, rather than the current system where resident directors are mostly—although by no means always—designates that take direction from headquarters back in the capitals. Non-residency would eliminate much of the political guesswork and back-channel maneuvering to divine what the shareholder governments are really thinking.

Lastly, a lighter board would reduce costs of all kinds. Maintaining large numbers of executive directors and their well-paid full-time staffs costs real money and is a sizeable part of the administrative budget of the IMF and each of the Banks. But more important than the financial cost is the cost to management and staff in time and effort of "feeding" resident boards, responding to a huge range of (mostly non-productive) board requests for reports, briefings, updates, informal seminars, and so on.

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Freeing management and staff to focus on the countries they are supposed to serve rather than keeping a resident board happy would sharpen accountability and improve effectiveness with no loss of oversight. Instead of creating mountains of paperwork, staff and management could devote their full resources to their core business: creating sustainable economies that reduce poverty.

The multilateral system's mission of spreading global prosperity is too important—and these institutions too pivotal to that mission—to leave them languishing in an outdated and ineffective governance structure. We came away from Tunis with the sense that overhauling the board would be welcome in most quarters and a huge leap forward. The AfDB, the smallest of the regional development banks, can lead the way by showing that a leaner, more efficient, model of governance is both possible and a "win-win" for everyone. Africa has an opportunity to show the world a better way. Let's hope that the shareholders and management don't miss it.

Resources

Building Africa's Development Bank: Six Recommendations for the AfDB and its Shareholders. Report by CGD's AfDB Working Group. (Washington, DC: Center for Global Development, 2006).

A New Era at the Inter-American Development Bank: Six Recommendations for the New President. Report by the Latin American Shadow Financial Regulatory Committee and the Center for Global Development. (Washington, DC: Center for Global Development, 2006).

The Hardest Job in the World: Five Crucial Tasks for the New President of the World Bank. CGD Working Group Report. (Washington, DC: Center for Global Development, 2006).

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1776 Massachusetts Ave., NW
Third Floor
Washington, D.C. 20036
Tel: (202) 416-0700
Fax: (202) 416-0750